



Glenn Hegar Texas Comptroller of Public Accounts

Report on the Activities of the Texas Comptroller of Public Accounts

INTERNAL AUDIT DIVISION | FISCAL 2019



Submitted to
Governor's Office, Budget and Policy Division
Texas Comptroller of Public Accounts
Legislative Budget Board
State Auditor's Office

November 1, 2019

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I. Compliance with Texas Government Code, Section 2102.015: Posting the Internal Audit Plan, Internal Audit Annual Report and Other Audit Information on Internet Website

The Texas Comptroller of Public Accounts (Comptroller's office) has developed a process to follow in order to ensure compliance with the provisions of Texas Government Code, Section 2102.015. Specifically, within 30 days of approval by the Comptroller, the approved Audit Plan was posted on the Comptroller's office internet website (<https://comptroller.texas.gov/transparency/reports/cpa-operations/>) as provided by Texas Government Code, Section 2102.008. In addition, the approved Internal Audit Annual Report will be posted on the Comptroller's office internet website, as required by Texas Government Code, Section 2102.009.

In accordance with Texas Government Code, Title 5 Open Government, Ethics, Chapter 552 Public Information, Subchapter C Information Excepted from Required Disclosure, the Internal Audit Division will not release any confidential or sensitive information protected by this exemption. Any information not protected by this or another applicable exemption that is determined to be confidential in nature will be specifically designated as such in accordance with State Auditor's Office (SAO) guidelines. No information contained in the agency's internal audit plan or annual report is exempted from public disclosure under Chapter 552.

Texas Government Code, Section 2102.015 also requires state agencies to update the posting required under this section to include:

- A detailed summary of the weaknesses, deficiencies, wrongdoings, or other concerns, if any, raised by the audit plan or annual report.
- A summary of the action taken by the agency to address the concerns, if any, that are raised by the audit plan or annual report.

To ensure compliance, reports on the implementation status of audit recommendations will be posted on the Comptroller's office internet website (<https://comptroller.texas.gov/transparency/reports/cpa-operations/>) except those exempted from public disclosure under Chapter 552 of the Texas Government Code.

II. Internal Audit Plan for Fiscal 2019

Fiscal 2019 Audits	Status
Audit of Unclaimed Property	Completed Report Title: An Internal Audit Report on the Audit of Unclaimed Property Report No.: 2019-102 Report Date: August 2019
Audit of Tax Allocation Processes	Completed Report Title: An Internal Audit Report on the Audit of Tax Allocation Processes Report No.: 2019-103 Report Date: August 2019
Audit of Statewide Procurement Division's (SPD's) Support to Texas Division of Emergency Management	Completed Report Title: An Internal Audit Report on the Audit of SPD's Support to Texas Division of Emergency Management Report No.: 2019-107 Report Date: August 2019
Audit of Statewide Mail Operations	In Progress – Reporting Phase
Audit of Contract Examination Program	In Progress – Reporting Phase
Audit of Vendor Performance Program	Removed to prevent duplication of efforts with the SAO
Audit of TXSmartBuy Administration	Removed due to lack of audit resources from unforeseen vacant positions
Audit of Mainframe Legacy Finance and Human Resources Applications Maintenance	Removed due to lack of audit resources from unforeseen vacant positions

In accordance with Texas Government Code, Section 2102.005(b), the division includes methods for ensuring compliance with contract processes and controls, and for monitoring agency contracts in the planning and fieldwork phase of each audit.

Fiscal 2018 "In Progress" Audits	Status
Audit of Audit Headquarters' Technical Support and Audit Processing Teams (Formerly Audit of Audit Processing and Texas Enterprise Zone)	<p>Completed</p> <p>Report Title: An Internal Audit Report on the Audit of Audit Headquarters' Technical Support and Audit Processing Teams</p> <p>Report No.: 2018-105</p> <p>Report Date: June 2019</p>
Audit of the State Energy Conservation Office	<p>Completed</p> <p>Report Title: An Internal Audit Report on the Audit of the State Energy Conservation Office</p> <p>Report No.: 2018-106</p> <p>Report Date: February 2019</p>
Audit of Information Technology (IT) Software Maintenance (Formerly Audit of IT Software Development)	<p>Completed</p> <p>Report Title: An Internal Audit Report on the Audit of IT Software Maintenance</p> <p>Report No.: 2018-107</p> <p>Report Date: August 2019</p>
Audit of Treasury Remote Check Depositing (Formerly Audit of Treasury Remote Depositing)	<p>Completed</p> <p>Report Title: An Internal Audit Report on the Audit of Treasury Remote Check Depositing</p> <p>Report No.: 2018-108</p> <p>Report Date: October 2018</p>

III. Consulting Services and Non-audit Services Completed

Report No.	Report Date	Name of Report	High-Level Objective(s)	Observations/Results and Recommendations
N/A	N/A	N/A	Web Application Modernization and Optimization Project (WAMO)	This ongoing consulting engagement provides high-level monitoring of the WAMO Project and review of contract deliverables.
N/A	N/A	N/A	Educational Opportunities and Investments Review	This engagement provides consulting services to determine whether the Educational Opportunities and Investments Division is conducting contract monitoring for the contract with the vendor.
N/A	N/A	N/A	Enterprise Risk Management (ERM)	The Internal Audit Division facilitates an ERM program to give management reasonable assurance that risks, which might hinder the accomplishment of agency objectives, have been identified and appropriately controlled or mitigated.
N/A	N/A	N/A	Special Investigations	Investigations were conducted and appropriate actions were taken to respond to hotline complaints received from the SAO.

IV. External Quality Assurance Review (Peer Review)

Overall Opinion

Based on the information received and evaluated during this external quality assurance review, it is our opinion that the Texas Comptroller of Public Accounts Internal Audit Division (the "Internal Audit Division") receives a rating of **"Pass/Generally Conforms"** and is in compliance with the Institute of Internal Auditors (IIA) *International Professional Practices Framework* and Code of Ethics, the United States Government Accountability Office (GAO) Government Auditing Standards, and the Texas Internal Auditing Act (Texas Government Code, Chapter 2102). This opinion, which is the highest of the three possible ratings, means that policies, procedures, and practices are in place to implement the standards and requirements necessary for ensuring the independence, objectivity, and proficiency of the internal audit function.

We found that the Internal Audit Division is independent, objective, and able to render impartial and unbiased judgments on the audit work performed. The staff members are qualified, proficient, and knowledgeable in the areas they audit. Individual audit projects are planned using risk assessment techniques; audit conclusions are supported in the working papers; and findings and recommendations are communicated clearly and concisely.

The Internal Audit Division is well managed internally. In addition, the Internal Audit Division has effective relationships with the administration and is well respected and supported by management. Surveys and interviews conducted during the quality assurance review indicate that management considers the Internal Audit Division to be a useful part of the overall organization's operations and finds that the audit process and report recommendations add value and help improve the organization's operations.

Acknowledgments

We appreciate the courtesy and cooperation extended to us by the internal audit director, internal audit staff, administration and management who participated in the interview processes. We would also like to thank each person who completed surveys for the quality assurance review. The feedback from the surveys and the interviews provided valuable information regarding the operations of the Internal Audit Division, its relationship with management, and compliance with auditing standards.

Signature on File	5/2/2017
Tony Chavez, CIA, CGAP, CRMA	Date

Director of Internal Audit
Employees Retirement System of Texas
SAIAF Peer Review Team Leader

Signature on File	5/2/2017
Shelley Barbontin, CIA	Date

Audit Manager
Texas Department of Family
and Protective Services
SAIAF Peer Review Team Member

Signature on File	5/2/2017
Tony Chavez, CIA, CGAP, CRMA	Date

Audit Lead
Texas Department of State Health Services
SAIAF Peer Review Team Member

V. Internal Audit Plan for Fiscal 2020

Fiscal 2020 Audits

Project Title	Division	Area	Project Hours
Audit of Property Tax Statewide Arbitration Process and Registry	Property Tax	Outreach and Support	1,530
Audit of Information Security Forensics Process	Information Security	Technical Risk Analysis	1,180
Audit of Treasury Banking and Electronic Processing	Treasury Operations	Banking and Electronic Processing	1,880
Audit of Centralized Accounting and Payroll/Personnel System (CAPPS) Contract Monitoring	Fiscal Management	Statewide Fiscal Systems	1,080
Audit of Agency Budget and Staffing	Agency Administration	Budget and Internal Accounting	1,230
Audit of Agency Governance Processes	All Divisions	All Areas	1,510
Audit of Agency Procurement Process	Agency Administration	Contract Administration and Procurement	1,010
		Total Fiscal 2020 Audit Hours	9,420

Note: The Audit of CAPPS Contract Monitoring, Audit of Treasury Banking and Electronic Processing and Audit of Agency Procurement Process address contract management.

Fiscal 2019 Audits in Progress

Project Title	Division	Area	Project Hours
Audit of Statewide Mail Operations	Statewide Procurement	Statewide Fleet, Travel and Mail Operations – Mail Messengers	180
Audit of Contract Examination Program	Audit	Audit – Field Offices Contract Examiner Program	185
Audit of Unclaimed Property	Unclaimed Property	Operations Support and Contract Employees – Operations Support Operations Support and Contract Employees – Safebox	160
Audit of Tax Allocation Processes	Revenue Accounting	Advanced Processes, Allocation and Location Verification – Tax Allocation	60
Audit of IT Software Maintenance	Information Technology	Application Services – Tax and Operations – Administrative Apps	70
Audit of SPD's Support to Texas Division of Emergency Management	Statewide Procurement	Procurement Policy and Outreach – Outreach	115
		Total Fiscal 2019 Audits in Progress Hours	770

Special Projects/Management Requests

Project Title	Project Hours
Follow Ups	380
Client Assist (Internal/External)	100
Fiscal 2019 Internal Audit Annual Report	40
Fiscal 2021 Risk Assessment	940
Fiscal 2020 Audit Plan Monitoring	160
TTSTC W/P Review – Client Assist	-
TeamMate Maintenance	150
Internal Audit SharePoint Maintenance	20
TeamMate Template Revision	260
Quality Assurance Reporting	20
IT Steering Committee	10
Internal Audit Handbook Review	80
IT Audit Planning Template	40
Special Investigations	40
External Peer Reviews	-
Internal Audit Peer Review	120
Texas Bullion Depository Review	40
WAMO Project	120
ServiceNow GRC Pilot Project	120
Big Money Memo Special Project	400
Continuous Monitoring Program Data Analysis	180
Process Reviews	760
Training Development	60
Fiscal 2020 Risk Assessment	55
Educational Opportunities and Investments Special Project	70
Other Requests/Unallocated Hours	265
Total Special Projects/Management Requests	4,430

Summary of Hours

Summary	Total Hours
Total Fiscal 2020 Audits	9,420
Total Fiscal 2019 Audits in Progress	770
Total Special Projects/Management Requests	4,430
Direct Audit Hours	14,620
Indirect Hours	6,260
Total Hours	20,880

The division's assessment is based upon 709 key processes reported through the ERM program. The division analyzed and assessed the risks to those key processes by using the self-assessment module of the division's TeamMate audit software, supplemental risk questionnaires, and interviews with division directors. We considered risks related to contract management and information technology (Title 1, Texas Administrative Code, Chapter 202, Chapter 202) in our risk-assessment process by obtaining probability, impact and monitoring risk-level ratings for applicable agency key processes through the TeamRisk self-assessments. We reviewed these risk-level ratings further and adjusted, as needed, based on auditor judgment in the TeamRisk auditor assessment worksheet.

Risk Factors and Weights

Risk Factor	Risk Weight
Control Environment	15.00%
Risk and Monitoring	25.00%
Dollar Value of Transactions	15.00%
Reliance on Third Parties	10.00%
Management Concern	10.00%
Legislative Interest	10.00%
Confidential Information	15.00%

The risk assessment identified 52 high, 619 medium, and 38 low-risk key processes. To provide coverage for all high risks, we propose the following:

- Seven key processes will be covered in proposed audits.
- One key process will be covered in a fiscal 2019 audit still in progress.
- Six key processes will be covered as part of the fiscal 2020 Internal Control Risk Assessment (ICRA) workshops.
- Twenty-one key processes were covered in previously conducted audits and will be covered during audit follow up.
- Five key processes will be covered in a special project or other audit coverage.

The division's ERM staff conducts facilitated ICRA workshops with high-risk areas of the agency. The workshops provide the identified teams the opportunity to fully document and assess the risks and controls for their key processes.

VI. External Audit Services Procured in Fiscal 2019

Name of External Auditor	Services Provided	Date of Service (Report Date)
RSM US LLP	Financial audit of the programs of the Texas Prepaid Higher Education Tuition Board	Fiscal 2018 report dated Dec. 12, 2018
Audit Services U.S. LLC	Audit Services for Unclaimed Property	Fiscal 2019 to Current
Discovery Audit Services	Audit Services for Unclaimed Property	Fiscal 2019 to Current
Innovative Advocate Group	Audit Services for Unclaimed Property	Fiscal 2019 to Current
TL2Q LLC	Audit Services for Unclaimed Property	Fiscal 2019
Treasury Services Group	Audit Services for Unclaimed Property	Fiscal 2019 to Current
Versus Analytics LLC	Audit Services for Unclaimed Property	Fiscal 2019 to Current
KPMG LLP	System and Organization Controls (SOC 1) Report on the Texas Comptroller of Public Accounts' Description of its Centralized Accounting Payroll/Personnel System and the Suitability of the Design and Operating Effectiveness of Controls	Oct. 15, 2019
Monty Stanley, Kyle Holcomb: Chiefs of Police	Texas Police Chiefs Best Practice Recognition Program	Aug. 20-21, 2019

Name of External Auditor	Services Provided	Date of Service (Report Date)
Abdessamad Ait Ali/State Sales Tax Consulting LLC Antonio V. Concepcion Art Koenings Jr., CPA Brenda Maldonado Cherise D. Collins Cindy Alvarez Cindy H. Coats, CPA Cindy Reed, CPA/Ruzicka-Reed Partnership Dale Ruzicka/Ruzicka-Reed Partnership Dan A. Northern Dana W. Foote Delores A. Nornberg Dibrell P. Dobbs Dixie Smith, CPA/D. Smith Consulting Fabian Avina Frank Castro/Texas Tax Consulting Group, LC Frederick Drew Nixon Homer Max Wiesen, CPA Jean Chan Julie R. Ortiz, CPA Khristina Mitchell/Khrista Marque LLC L. C. Gordon, Jr./Taygor Associates LLC Lee Hopes/Lee A. Hopes & Associates Inc. Linda L. Davis Lisa Loughney Marina Roy Buenaventura, CPA Mario A. Mandujano Michiell Stites/Stites Pybus LLC Paul D. Underwood Paul Hernandez Ramiro J. Garza Raymond Franco/State and Local Tax Group LLC Ronnie E. Marsh, CPA Sean J. Lomonaco Stephanie (Clark) Jackson Sylvia Villanueva Flaherty Terra Hillman Treva M. Sullivan/Sullivan State Tax Group LLC Trevor Garrett/Garrett State Tax Service Inc. Vernice Seriale, Jr. Wayne A. Powe Wayne Wharton/State and Local Tax Group LLC Willie J. Sullivan, Jr./Sullivan State Tax Group LLC	Sales and Use Tax examination services	Fiscal 2019 – Sept. 1, 2018, through Aug. 31, 2019

VII. Reporting Suspected Fraud and Abuse

The Comptroller's office has taken several measures to address the potential misuse or misappropriation of state resources. The Comptroller's office has also taken action to implement the requirements to report suspected fraud, waste and abuse involving state resources directly to the SAO.

Actions taken to implement the requirements of:

- Fraud Reporting, Sec. 7.09, pages IX-37, the General Appropriations Act (86th Legislature).

The Comptroller's office internet website contains a Report Fraud link when the Contact link at the bottom of the page is selected (<https://comptroller.texas.gov/>). This webpage explains how to report fraud involving state resources to the SAO. The SAO's phone number for reporting fraud, 800-TX-AUDIT, and a link to the SAO's Fraud website, <https://sao.fraud.texas.gov/>, are included in the information provided on the Reporting Fraud page.

The Comptroller's office intranet website contains a State Auditor's Fraud website link at the bottom of the page, which directs users to the SAO's Investigations and Audit Support page. This webpage provides information and instructions on reporting fraud, waste, or abuse to the SAO. The SAO's hotline number for reporting fraud, 800-TX-AUDIT; a link to the SAO's form for reporting fraud, waste, or abuse; and instructions on submitting reports of fraud, waste, or abuse online by email or mail are found on this webpage.

The Employee Handbook of the Comptroller's office, Chapter 15: Compliance and Risk Assessment – Policy Prohibiting Fraud, Waste, Theft, and Abuse, includes information on how to report suspected fraud involving state funds to the SAO by calling 800-TX-AUDIT or by making a report online (<https://sao.fraud.texas.gov/>). The same Employee Handbook includes a requirement that all employees complete fraud awareness training and complete an acknowledgment form each fiscal year.

The Comptroller's office Internal Audit Division website also contains links and contact information that include the SAO's phone number for reporting fraud, 800-TX-AUDIT; the link to the SAO's Fraud website (<https://sao.fraud.texas.gov/>), the link to the SAO Fraud Reporting Form (<https://sao.fraud.texas.gov/ReportFraud/>); the link to the GAO's FraudNET (<http://www.gao.gov/fraudnet/fraudnet.htm>); and the GAO's toll-free number, 800-424-5454, and fax, 202-512-3086, as well as the email address (fraudnet@gao.gov).

- Texas Government Code, Section 321.022. Coordination of Investigations

The Comptroller's office has established the "Policy Prohibiting Fraud, Waste, Theft and Abuse" and is committed to preventing fraud, waste, theft, and abuse by its employees and any consultant, vendor, contractor, outside agency, or person in dealings with the agency or the state of Texas.

Each employee is required to report any suspected fraud, theft, waste, or abuse to the agency. An employee may make a report to his or her supervisor; directly to the Ethics Officer; or through the Network, an outside reporting hotline, at 866- 420-8369.

Employees can report suspected fraud, waste and abuse involving state funds to the SAO by calling 800-TX-AUDIT (892-8348) or by making a report online at <https://sao.fraud.texas.gov/>.

The Ethics Officer receives allegations of suspected fraud, waste, theft, and abuse. The Ethics Officer may collect additional information from the employee or other person making the report and will make a preliminary determination whether the allegations should be investigated by the Criminal Investigations Division, Internal Audit, Human Resources, the Ethics Officer, some combination of these, or another appropriate person or entity.

The Anti-Fraud Coordinator will report any finding of fraud to the SAO as required.

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Internal Audit Division | Fiscal 2019**

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